

**LODI CITY COUNCIL
SHIRTSLEEVE SESSION
CARNEGIE FORUM, 305 WEST PINE STREET
TUESDAY, DECEMBER 7, 2010**

A. Roll Call by City Clerk

An Informal Informational Meeting ("Shirtsleeve" Session) of the Lodi City Council was held Tuesday, December 7, 2010, commencing at 7:00 a.m.

Present: Council Member Hansen, Council Member Katzakian, Council Member Nakanishi, Mayor Pro Tempore Mounce, and Mayor Johnson

Absent: None

Also Present: City Manager Bartlam, City Attorney Schwabauer, and City Clerk Johl

B. Topic(s)

B-1 First Quarter Fiscal Year 2010/11 Water, Wastewater and Electric Utility Department Financial Reports (CM)

City Manager Bartlam provided a brief introduction to the subject matter of the utility financial reports.

Deputy Public Works Director Charlie Swimley provided a PowerPoint presentation regarding the water and wastewater first quarter utility update. Specific topics of discussion included water and wastewater cash flow summary for operations, operating results, cash balances, and accomplishments.

In response to Mayor Johnson, Mr. Bartlam stated the energy costs are not the only costs in the communication and transportation line item budget wide and there could be some consideration to separate that out.

In response to Council Member Hansen, Mr. Bartlam stated the proposed wind turbine could have an impact on energy costs although he is not sure about the time frame for the project.

In response to Council Member Hansen, Mr. Swimley stated staff will ask the Council to award the dewatering contract on December 15, which will encumber \$5 million.

In response to Council Member Hansen, Mr. Swimley stated the life expectancy for pipes at White Slough is approximately 20 years.

In response to Council Member Nakanishi, Deputy City Manager Jordan Ayers stated the debt service amount for the utility is approximately \$4 million.

In response to Council Member Nakanishi, Mr. Swimley stated the 7% decrease in wastewater is likely the result of the economy.

In response to Council Member Hansen, Mr. Swimley stated that, with respect to the status of the permit, it is an ongoing process for the five-year permit with some permit cycles being more aggressive than others. Mr. Swimley stated staff is winding down on the reports for the old permit and getting ready for the new permit reporting, which is due in late 2011.

In response to Myrna Wetzel, Mr. Swimley stated the service water rules require certain levels of chlorine in the system on an ongoing basis and some residents may smell or taste the chlorine

based on their sensitivity but it is very rare.

Electric Utility Director Liz Kirkley provided a PowerPoint presentation regarding the first quarter electric utility update. Specific topics of discussion included an overview, financial results, operating expenditures, power supply, power sales, billing statistics, Energy Cost Adjustment revenue, Northern California Power Agency (NCPA) general operating reserve (GOR), open position, local resource adequacy capacity, and conclusion.

In response to Mayor Johnson, Ms. Kirkley stated the biggest employee vacancy concern has been taken care of with the filling of the principal resource manager position. Ms. Kirkley stated there is still some difficulty in filling the electric technician position because the demand is higher than the supply of qualified candidates.

In response to Mayor Johnson, Ms. Kirkley stated the loads are down generally throughout the various utilities and not just Lodi.

Council Member Nakanishi requested range numbers for loads and demands for the past five years as well as the rate comparisons with other utilities.

In response to Council Member Nakanishi, Ms. Kirkley stated the NCPA GOR number reflects only Lodi and not the entire NCPA pool.

In response to Mayor Johnson and Mayor Pro Tempore Mounce, Ms. Kirkley stated the utility always looks at the best possible prices for purchases from other utilities and Lodi itself does not sell because it does not have an extra supply. She stated she was not sure of who the utility purchased from last year.

In response to Council Member Nakanishi, City Attorney Schwabauer stated Electric Utility has always purchased natural gas through NCPA; although, previous Electric Utility Director Alan Vallow did want to procure it directly, which the Council declined. Ms. Kirkley stated there may be some changes with the new Lodi Energy Center coming on line with procurement as well.

B-2 Revised Electric Reserve Fund Policy (EUD)

Electric Utility Director Liz Kirkley provided a PowerPoint presentation regarding the electric reserve fund. Specific topics of discussion included background, initial target adopted by Council, reserve policy, reserve status, updating initial target, Northern California Power Agency (NCPA) member survey, and the new reserve recommendation.

In response to Mayor Pro Tempore Mounce, Deputy City Manager Jordan Ayers stated the matter was brought before the Budget and Finance Committee, there was no quorum, and some comments were received through a workshop format.

In response to Mayor Johnson, Mr. Ayers stated the current ratings are a B+++ from Fitch, an A from Moody's, and an A- from Standard and Poors.

In response to Council Member Nakanishi, Mr. Ayers and City Manager Bartlam explained that the exact effect of the ratings is unknown until the next borrowing with respect to interest rates and overall benefit.

In response to Mayor Pro Tempore Mounce, Mr. Ayers stated the next borrowing will likely not occur for another few years.

In response to Mayor Pro Tempore Mounce, Mr. Bartlam stated rating agencies take into account

not only the reserve amount for the utility but also the NCPA general operating reserve (GOR). Mr. Schwabauer stated the ratings are also relevant when purchasing gas and power, which is done three to four years out.

Mayor Pro Tempore Mounce requested the ratings for NCPA member survey agencies, including Roseville.

In response to Mayor Johnson, Ms. Kirkley stated the master chart provided in the staff report packet reflects GOR recommendations from NCPA. Mr. Ayers stated the current policy is 45 days and the recommendation is 60 days.

In response to Council Member Katzakian, Ms. Kirkley stated at mid-year review staff will be bringing forward for Council consideration options associated with increasing the cash days on hand. Mr. Bartlam stated there may be ways to increase the amount by approximately \$5 million through savings, without rate increases, although there are no further reimbursements due on the Lodi Energy Center.

A brief discussion ensued amongst the City Council, Mr. Bartlam, and Ms. Kirkley regarding reserve amount versus cash days on hand, infrastructure replacement and maintenance, and deferral of needed repairs.

C. Comments by Public on Non-Agenda Items

None.

D. Adjournment

No action was taken by the City Council. The meeting was adjourned at 8:06 a.m.

ATTEST:

Randi Johl
City Clerk



CITY OF LODI COUNCIL COMMUNICATION

AGENDA TITLE: First Quarter Fiscal Year 2010/11 Water, Wastewater and Electric Utility Department Financial Reports

MEETING DATE: December 7, 2010

PREPARED BY: Deputy City Manager

RECOMMENDED ACTION: Receive utility financial reports for the first quarter of Fiscal Year 2010/11 ending September 30.

BACKGROUND INFORMATION: In accordance with the Lodi Municipal Code, quarterly financial reports are to be prepared for the Water, Wastewater, and Electric Utilities. Highlights of the operations and financial performance of each utility will be presented at the meeting of December 7, 2010.

FISCAL IMPACT: None directly related to the preparation of the report. However, the presentation is intended to keep the Council apprised of the financial conditions of the major municipal utilities.

FUNDING AVAILABLE: Not applicable.

A handwritten signature in black ink, appearing to read "Jordan Ayers".

Jordan Ayers
Deputy City Manager

APPROVED:

A handwritten signature in black ink, appearing to read "Konradt Bartlam".

Konradt Bartlam, City Manager



Public Works Department Water/Wastewater

FY 11 Quarterly Update (Through September 30, 2010)

City Council Shirtsleeve Session
December 7, 2010

**Wastewater Fund
Cash Flow Summary
Operations
(Ending September 30, 2010)**

| | Budget | Actuals | % of Budget |
|--|-------------------|------------------|--------------------|
| Revenue | | | |
| Sales | 13,527,180 | 3,008,723 | 22% |
| Other (interest, septic, misc.) | 155,500 | 16,233 | 10% |
| Total Revenues | 13,682,680 | 3,024,956 | 22% |
| Expenses | | | |
| Operating | 7,527,960 | 1,134,328 | 15% |
| Debt Service | 4,127,840 | (46,821) | (1)% |
| Cost of Services Payment To General Fund | 1,451,480 | 362,870 | 25% |
| Total Expenses | 13,107,280 | 1,450,377 | 11% |
| Net Increase in Undesignated Reserves –Year To Date | | 1,574,579 | |

Wastewater Operating Results

(Ending September 30, 2010)

| | Budget | Actuals | % of Budget |
|---------------------------------|---------------------|---------------------|-------------|
| Personnel | \$ 3,282,310 | \$ 657,155 | 20% |
| Supplies, Materials, Services | \$ 3,138,144 | \$ 307,320 | 10% |
| Equipment, Land, Structures | \$ 65,206 | \$ - | 0% |
| Other Payments | \$ 187,100 | \$ 1,646 | 1% |
| Communication & Transportation | \$ 818,500 | \$ 168,207 | 21% |
| Work for Others | \$ 36,700 | \$ - | 0% |
| Total Operating Expenses | \$ 7,527,960 | \$ 1,134,328 | 15% |

Wastewater Funds
Cash Balances
(Ending September 30, 2010)

| | |
|--|-------------|
| | |
| Operating (170) | 3,345,810 |
| Utility Capital / Infrastructure Replacement (171) | 5,237,905 |
| Capital Reserve (172) (Fund used to pay White Slough COP Debt Service) | (2,936,093) |
| Capital Reserve Restricted Assets (172) (White Slough COP Remaining Proceeds) | 5,328,569 |
| IMF (173) | 836,194 |
| Total | 11,812,385 |

**Water Fund
Cash Flow Summary
Operations
(Ending September 30, 2010)**

| | Budget | Actuals | % of Budget |
|---|------------------|------------------|--------------------|
| Revenue | | | |
| Sales | 6,658,590 | 1,777,597 | 27% |
| Other (interest, septic, misc.) | 89,540 | 51,107 | 57% |
| Total Revenues | 6,748,130 | 1,828,704 | 27% |
| Expenses | | | |
| Operating | 4,512,965 | 1,292,307 | 29% |
| Debt Service | 228,030 | 12,047 | 5% |
| Cost of Services Payment To General Fund | 1,060,120 | 265,030 | 25% |
| Total Expenses | 5,801,115 | 1,569,384 | 27% |
| Net Increase in Undesignated Reserves – Year to Date | | 259,320 | |

Water Operating Results

(Ending September 30, 2010)

| | Budget | Actuals | % of Budget |
|---------------------------------|---------------------|---------------------|-------------|
| Personnel | \$ 1,403,580 | \$ 292,032 | 21% |
| Supplies, Materials, Services | \$ 737,495 | \$ 102,260 | 14% |
| Equipment, Land, Structures | \$ 81,640 | \$ 40,846 | 50% |
| Other Payments | \$ 1,224,100 | \$ 613,406 | 50% |
| Communication & Transportation | \$ 721,150 | \$ 243,763 | 34% |
| Work for Others | \$ 345,000 | \$ - | 0% |
| Total Operating Expenses | \$ 4,512,965 | \$ 1,292,307 | 29% |

Water Funds
Cash Balances
(Ending September 30, 2010)

| | |
|---|------------|
| | |
| Operating (180) | 3,603,880 |
| Utility Capital / Infrastructure Replacement (181) | 8,034,164 |
| IMF (182) | (10,032) |
| PCE/TCE Settlements | 13,850,807 |
| PCE/TCE Rates (185) | 4,450,747 |
| Total | 29,929.566 |



Water / Wastewater Utility Accomplishments

Operational

- Water Distribution
- Water Production
- Collection System
- Wastewater Treatment
- Regulatory
 - SSO's
 - Discharge Violations
 - Monitoring and Reporting



Electric Utility Department

FY11 Quarterly Update

(Through September 30, 2010)

City Council Shirtsleeve Session
December 7, 2010



Overview

Through September 30, 2010

- Net power costs are 24.7% of budget
- Non-power costs are 17.8% of budget
- Debt Service costs are 25.0% of budget
- Revenues are 26.2% of budget
 - One time \$650,000 revenue from sale of CT1
- FY11 power costs ~99.4% hedged
- ECA = (\$494,385)



FY11 Financial Results

Through September 30, 2010

| | FY11 Budget | FY11 Actuals | % of Budget |
|------------------------------|-------------|--------------|-------------|
| Revenue | | | |
| Sales Revenues | 72,019,230 | 18,142,399 | 25.2% |
| Other Revenues | 503,880 | 882,629 | 175.2% |
| Total Revenues | 72,523,110 | 19,025,029 | 26.2% |
| Expenses | | | |
| Purchased Power | 43,205,800 | 10,674,474 | 24.7% |
| Non Power | 14,650,840 | 2,608,236 | 17.8% |
| Total Expenses | 57,856,640 | 13,282,710 | 23.0% |
| Net Revenue for Debt Service | 14,666,470 | 5,742,319 | 39.2% |

| | | | |
|----------------------------------|--------------------|------------------|--------|
| Debt Service | 7,364,772 | 1,841,193 | 25.0% |
| Capital Expenditures | 3,771,680 | 110,368 | 2.9% |
| Net Revenue | 3,530,018 | 3,790,758 | 107.4% |
| In-lieu Transfer to General Fund | 6,976,670 | 1,744,168 | 25.0% |
| Net Increase (Decrease) | (3,446,652) | 2,046,590 | |

| | Jun 30, 2010 | Sep 30, 2010 |
|-----------------------------|----------------------|----------------------|
| Local Cash Balance | 12,125,836 | 11,413,156 |
| GOR | 11,011,668 | 10,816,509 |
| Total Available Cash | \$ 23,137,504 | \$ 22,229,665 |



Non-Power Operating Expenditures

Through September 30, 2010

| | FY11 Budget | FY11 Actual | % of Budget |
|---------------------------------|----------------------|---------------------|--------------|
| Personnel | 6,683,070 | 1,325,652 | 20% |
| Supplies, Materials, Services | 2,241,730 | 365,979 | 16% |
| Equipment, Land, Structures | 1,597,600 | 145,040 | 9% |
| Other Payments | 1,201,110 | 42,358 | 4% |
| Communication & Transportation | 70,940 | 15,109 | 21% |
| Cost of Service Transfer | 2,856,390 | 714,098 | 25% |
| Total Operating Expenses | \$ 14,650,840 | \$ 2,608,236 | 17.8% |



Power Supply

Through September 30, 2010

| | Budgeted | Year to Date | % of Budget |
|---------------------|----------------------|----------------------|--------------|
| Generation | \$ 35,727,071 | \$ 8,799,319 | 24.6% |
| Transmission | \$ 7,789,578 | \$ 1,775,044 | 22.8% |
| Management Services | \$ 1,401,170 | \$ 350,298 | 25.0% |
| Third Party Revenue | \$ (2,708,341) | \$ (1,365,173) | 50.4% |
| Adjustments | | \$ 1,114,986 | |
| TOTAL | \$ 42,209,478 | \$ 10,674,474 | 25.3% |



Power Sales

Through September 30, 2010

| | Budgeted Sales | Year to Date Sales | % Budget |
|---------|----------------|--------------------|----------|
| kWh | 445,740,373 | 123,048,116 | 27.6% |
| Revenue | \$ 72,019,230 | \$ 18,142,399 | 25.2% |

| | Year | HDD | Normal | CDD | Normal |
|-------------------|------|----------|----------|------------|-------------|
| July | 2010 | 0 | 0 | 313 | 390 |
| August | 2010 | 0 | 0 | 245 | 363 |
| September | 2010 | 0 | 5 | 216 | 247 |
| FY11 Total | | 0 | 5 | 774 | 1000 |



Billing Statistics

Through June 30, 2010

| Budgeted FY11 | | | |
|-----------------------------------|--------------------|----------------------|------------------|
| Customer Class | kWh Sales | Revenue | Average Rate |
| Residential | 151,295,828 | \$ 28,010,849 | \$ 0.1851 |
| Small Commercial | 165,136,271 | \$ 28,188,450 | \$ 0.1707 |
| Large Commercial/Small Industrial | 35,277,212 | \$ 5,244,767 | \$ 0.1487 |
| Industrial | 93,863,755 | \$ 10,575,165 | \$ 0.1127 |
| TOTAL | 445,573,066 | \$ 72,019,230 | \$ 0.1616 |

| Year to Date FY11 | | | |
|-----------------------------------|--------------------|----------------------|------------------|
| Customer Class | kWh Sales | Revenue | Average Rate |
| Residential | 42,997,273 | \$ 7,035,590 | \$ 0.1636 |
| Small Commercial | 43,955,677 | \$ 7,140,250 | \$ 0.1624 |
| Large Commercial/Small Industrial | 10,734,632 | \$ 1,522,486 | \$ 0.1418 |
| Industrial | 25,360,534 | \$ 2,444,073 | \$ 0.0964 |
| TOTAL | 123,048,116 | \$ 18,142,399 | \$ 0.1474 |



ECA Revenue

| Customer Class | Q1 |
|-----------------------------------|---------------------|
| Residential | (172,664) |
| Small Commercial | (158,469) |
| Large Commercial/Small Industrial | (46,377) |
| Industrial | (116,875) |
| Total ECA Revenue | \$ (494,385) |



NCPA “GOR”

GOR levels

- \$11,011,668 (June 30, 2010)
- \$10,816,509 (September 30, 2010)

Scheduling Coordination Balancing Acct \$(202,453)

\$202,453 Decrease



FY11 “Open Position”

| | Lodi Total Surplus/(Deficit) | MWh Load | % of Load | Lodi HLH Surplus/(Deficit) | MWh Load | % of Load | Lodi LLH Surplus/(Deficit) | MWh Load | % of Load |
|---------------------|---------------------------------|----------------|--------------|-------------------------------|----------------|--------------|-------------------------------|----------------|-------------|
| July 2010 | | 44,273 | 0.00% | | 29,082 | 0.00% | | 15,727 | 0.00% |
| August | | 43,634 | 0.00% | | 28,638 | 0.00% | | 15,754 | 0.00% |
| September | | 40,620 | 0.00% | | 26,044 | 0.00% | | 15,358 | 0.00% |
| October | | 36,811 | 0.00% | | 23,334 | 0.00% | | 12,431 | 0.00% |
| November | | 28,838 | 0.00% | | 18,312 | 0.00% | | 10,526 | 0.00% |
| December | (1,797) | 36,135 | -4.97% | (193) | 22,929 | -0.84% | (1,604) | 13,206 | -12.15% |
| January 2011 | (2,367) | 35,983 | -6.58% | (1,047) | 22,041 | -4.75% | (1,320) | 13,942 | -9.47% |
| February | (2,489) | 32,171 | -7.74% | (1,394) | 20,801 | -6.70% | (1,096) | 11,370 | -9.64% |
| March | (1,104) | 33,303 | -3.31% | (527) | 21,953 | -2.40% | (577) | 11,350 | -5.08% |
| April | (2,738) | 34,291 | -7.98% | (3,405) | 22,234 | -15.31% | 667 | 12,058 | 5.53% |
| May | 4,450 | 32,953 | 13.50% | 1,703 | 20,586 | 8.27% | 2,747 | 12,367 | 22.21% |
| June | 3,637 | 38,524 | 9.44% | 1,904 | 25,749 | 7.40% | 1,733 | 12,775 | 13.57% |
| FY Total | (2,409) | 437,536 | -0.6% | (2,959) | 281,702 | -1.1% | 550 | 156,866 | 0.4% |
| Bal Yr Total | (2,409) | 243,360 | -1.0% | (2,959) | 156,292 | -1.9% | 550 | 87,068 | 0.6% |

(FY11 Power Costs ~99.4% hedged.)



FY11 Local Resource Adequacy Capacity

LRAC Savings

- CAISO determination that “Reliability Must Run” capacity would satisfy LRAC requirements
- EUD negotiated a contract for LRAC from Turlock Irrigation District and will pay about \$20,000 for July and August
- Savings of \$80,000 over the previous year
- EUD is currently under negotiations with Plumas Sierra to receive \$5,000 reimbursement for a portion of these costs



Conclusion

Through September 30, 2010

- Net power costs are 24.7% of budget
- Non-power costs are 17.8% of budget
- Debt Service costs are 25.0% of budget
- Revenues are 26.2% of budget
- FY11 power costs ~99.4% hedged
- ECA = (\$494,385)



**CITY OF LODI
COUNCIL COMMUNICATION**

AGENDA TITLE: Revised Electric Reserve Fund Policy

MEETING DATE: December 7, 2010

PREPARED BY: Electric Utility Director

RECOMMENDED ACTION: Receive staff report for a revised Electric Reserve Fund Policy

BACKGROUND INFORMATION: On January 17, 2007, the City Council adopted a resolution establishing an Electric Reserve Fund Policy with an initial target of \$12.9 million. The resolution also stated "The Electric Utility Department (EUD) shall perform an updated assessment of prudent cash reserve levels at a frequency no less than every three years and report same to the City Council".

The attached Updated Assessment of Prudent Cash Reserve Levels for Lodi Electric Utility provides background information for the current reserve levels and staffs recommendation to revise the next interim Electric Reserve Target Level.

FISCAL IMPACT: None directly related to the preparation of the report. However, the presentation is intended to provide the Council with an updated reserve recommendation for the EUD.

FUNDING AVAILABLE: Not applicable.


Elizabeth A. Kirkley
Electric Utility Director

APPROVED: 
Konrad Bartlam, City Manager

**UPDATED ASSESSMENT OF PRUDENT
CASH RESERVE LEVELS FOR LODI ELECTRIC UTILITY
OCTOBER 2010**

PURPOSE

To report to the City Council an updated assessment of prudent cash reserve levels that should be maintained by Lodi Electric Utility.

BACKGROUND

A November 2006 study by Navigant, Inc., commissioned by the City of Lodi recommended that the City's Electric Fund maintain cash reserves as follows:

| Fund Designation | Recommended Minimum Balances as of 2007 | Basis |
|----------------------------|--|--|
| Operating Reserve | \$ 8,200,000 | 45 days of budgeted operating costs |
| Capital Reserve | \$ 500,000 | largest distribution system contingency (replace a substation transformer) |
| Rate Stabilization Reserve | \$ 4,200,000 | 10% of all annual power costs |
| Total Cash on hand | \$ 12,900,000 | |

On January 17, 2007, the City Council adopted Resolution No. 2007-13, Establishing an Electric Reserve Fund Policy ("Policy"). The Policy set an initial Electric Reserve Target Level ("Target"):

| Fund Designation | Recommended Minimum Balances as of 2007 | Basis |
|----------------------------|--|--|
| Operating Reserve | \$ 8,200,000 | 45 days of budgeted operating costs |
| Capital Reserve | \$ 500,000 | largest distribution system contingency |
| Rate Stabilization Reserve | \$ 4,200,000 | 20% of annual spot market power costs |
| Total Target | \$ 12,900,000 | |

The Policy included City Council endorsement of a program to increase cash reserves to the Target by June 2010. The Policy also provided for an updated assessment of the Target every third year.

This report is the updated assessment.

DISCUSSION

A. Status of Original Target: The Target was reached by June 2010. As of June 30, 2010, Electric Fund Cash Reserves stood at (unaudited):

| Location | Balance |
|--------------------------------|---------------------|
| Lodi | \$ 12,125,835 |
| NCPA General Operating Reserve | \$ 11,011,668 |
| Total Cash on hand | \$23,137,503 |

B. Updating the Target: In updating recommendations for the prudent cash reserve levels, the following information is taken into consideration:

1. In its annual budget, NCPA lists a number of contingent liabilities for Lodi to address by maintaining funds in its account in the NCPA General Operating Reserve (rounded here):

| | Contingent Liability | Required Funding for FY 2011 |
|---|---------------------------------|---|
| a | Hydro Plant & Western Dry Year | \$ 2,800,000 |
| b | Self-insured Loss on Plants | \$ 2,700,000 |
| c | Unfunded Geo Decommissioning | \$ 2,600,000 |
| d | Market Volatility Cost Reserve | \$ 700,000 |
| e | Other (combined) | \$ 200,000 |
| | Total Cash Target in GOR | \$ 9,000,000 |

a. Hydro Plant & Western Dry Year: Lodi's share of replacement power cost difference between average and dry year generation in NCPA's Hydro Project and Lodi's allocation of Western Area Power Administration Base Resource for a single year.

b. Self-insured Loss on Plants: Lodi's participant share of insurance deductibles, self-insured retentions, or uninsured risk in the event of the "highest probable", "not worst case scenario", property loss.

c. Unfunded Geo Decommissioning: Lodi's participant share of estimated decommissioning cost of NCPA Geothermal Projects, less funding and interest to date.

d. Market Volatility Cost Reserve: Difference between high and median average annual electric market prices (\$/MWh) times estimated Lodi spot market purchases.

e. Other: Levelization of Lodi's share of future NCPA staff benefits costs and NCPA general loss liability insurance deductible.

2. The Rate Stabilization Reserve is redundant with the NCPA Market Volatility, Western, and Hydro Plant contingencies, as well as the working of the Lodi EUD Energy Cost Adjustment (ECA) that works to pass through normal volatility to customers.

3. Fitch Ratings, in its June 2010 U.S. Public Power Peer Study Addendum finds that the public power retail utilities it rates "A" average 107 days of cash on hand. Public power retail utilities rated AA by Fitch average approximately 121 days of cash on hand. Lodi's rating affects the interest paid on future Lodi financings and refinancings as well as those of NCPA Plants from which we take cost-based output. The proposed Westside Substation, White Slough Substation, and 60 kV power line to White Slough will require financing as may some green energy projects under study.

4. In a recent survey of NCPA Members, Members specified Operating Reserves policies with minimum days' cash of: 145, 146, 90, 55, 110, 61, 91, and 150. This averages to 106 days' cash, in addition to any reserves for Capital, Rate Stabilization, or NCPA-identified issues.

5. In many years, significant studies are undertaken that are not anticipated at budget time. For example, NCPA is now studying three proposals for renewable, non-Greenhouse Gas energy supplies. Lodi's participant share of such studies could exceed \$300,000 in a year.

RECOMMENDATION

It is recommended that:

1. the City Council revise the next interim Electric Reserve Target Level to:

| Fund Designation | Basis | For FY 2011 |
|---|---|----------------------|
| Operating Reserve | 90 days cash on hand | \$ 18,900,000 |
| Capital Reserve | Largest distribution system contingency | \$ 500,000 |
| NCPA - General Operating Reserve | As identified by NCPA plus allowance for unanticipated studies | \$ 9,300,000 |
| Total Target | | \$ 28,700,000 |

2. in the event that the ECA is modified or smoothed from a month-to-month matching of costs and revenues, that reconsideration be given to adding an allowance to the Target;

3. budgeting and rate-making consider progress toward the Target over the next three years and other issues important to financial ratings, such as debt-service coverage;

4. the assessment and its bases continue to be reviewed at intervals of three years.

**DETERMINATION OF PRUDENT AND APPROPRIATE
CASH RESERVE LEVELS FOR
LODI ELECTRIC UTILITY**

NOVEMBER 2006

PURPOSE

To determine prudent and appropriate levels of cash reserves that should be maintained by Lodi Electric Utility.

BACKGROUND

In Lodi, the cost of operating and maintaining its electrical system is supported primarily by retail rates. Historically, these costs have had some degree of predictability, however, in recent times price volatility as a result of power scarcity, natural gas price increases and environmental compliance issues have created periods of price instability. Such effects have been most notable in energy markets over the past few years as city councils and utility boards have struggled with rate setting decisions that relate to maintaining the financial health of their utilities. Unlike those utilities that have strong cash positions, Lodi Electric Utility finds itself in a cash poor position as a result of some past decisions relating to fuel markets, purchased power and rates.

Lodi Electric Utility recognizes that maintaining adequate cash reserves is an operational need as well as a primary determinate of its bond ratings. Since Lodi Electric Utility is a member of the Northern California Power Agency (NCPA), it is faced with the additional consideration that its financial situation also has an effect upon NCPA's future financings , bond ratings and costs.

Since the establishment of reserves is often viewed as a policy issue, the determination of appropriate reserve levels is best decided by the City Council. For that reason, Lodi Electric Utility has undertaken this study to develop a criteria and recommendations to advise the City Council on the level of reserves needed to maintain the fiscal health of its electric system.

STUDY APPROACH

The process used to develop the recommendations found in this report included:

- Consideration of the contingencies and probabilities of Lodi Electric Utility encountering those contingencies
- A review of reserves levels in the electric utility industry
- A limited survey of the practices employed by comparably sized California municipal utilities
- Discussions with Lodi Electric staff.

The focus of this study is not on those reserve balances associated with the issuance of bonds, but rather on those more commonly set-aside by businesses for general, particular or contingency purposes. It is also important to note that this study is not designed to determine the adequacy of revenues generated from utility billings to support reserve funds. It is presented on a revenue-neutral basis and does not address utility rates or revenues.

ANALYSIS

Cash reserves are highly liquid assets that are set aside by business organizations to provide funds to address operational contingencies. Factors that guide the types and sizes of reserves vary from organization to organization and business to business. Both business and governmental organizations that are well managed generally maintain cash reserves in amounts appropriate for the risks associated with their line of work. The size of the reserve is generally based upon an assessment of specific contingencies that might require the use of fund reserves and the probability of such events occurring.

Reserves are often classified in the following manner:

Operating Reserves

Most utilities maintain Operating Reserves in one form or another. The amount or level of reserves is generally based upon providing “coverage” of expenses over a number of days. Typically, Operating Reserves are sized to cover 30-60 days’ expenses. Operating Reserves represent the most common form of cash reserves in place in the utility industry.

Capital Reserves

A second type of reserve that is often encountered among capital intensive businesses is Capital Reserves. Irrespective of whether they are governmental or investor-owned, utilities by their very nature are highly capital intensive. That is, a lot of high cost infrastructure is necessary for a utility to function properly. As a result, utilities often issue bonds to finance a “plant” that will last for many years. As well, Capital Reserve Funds are often set up to fund the emergency replacement of expensive capital equipment. For example, an electric utility may establish a capital reserve fund at an amount sufficient to fund the replacement of a failure of a turbine-generator, its largest system contingency. Capital Reserves that are called upon to fund capital projects are generally replenished from subsequent bond issues or rate revenue.

General Reserves

General Reserves are often established as a “catch all” to address either a wide range of typically unspecified/undefined contingencies. Because they are not created with specific intent, they are often subject to criticism particularly when funded with ratepayer dollars. It is not recommended that Lodi Electric Utility consider establishing General Reserves at this time.

Special/Specific Reserves

Reserves are often created and designated for specific purposes. For example, in the last decade many California municipal electric utilities established temporary reserves to help ensure their competitiveness in the volatile restructured electric utility environment. These reserves were often labeled “Stranded Investment Funds,” “Competitiveness Funds,” “Rate Stabilization Reserves,” or other similar titles which are somewhat descriptive of their purpose.

Debt Service or Bond Reserves

Issuers of debt sometimes maintain a debt reserve fund equal to some multiple of the average periodic debt service payment. This requirement could even be formalized in the form of a bond resolution associated with the borrowing. Utility debt service payments generally become due twice a year. The existence of a debt service reserve policy and associated funding could also send a favorable signal to investors and rating agencies. If Operating Reserves take debt service obligations into account, the establishment of a debt service reserve is generally not warranted.

DISCUSSION

Operating Reserves, sometimes referred to as working capital are well suited for addressing normal variations from planned or budgeted cash flows, as well as addressing contingencies that may arise from utility operations. They are generally established by formal policy. Restricted cash reserves set equal to 30 to 60 days operating costs are typical in the electric utility industry. Many California municipal utilities have historically conducted business with only operating reserves and such additional cash reserves as might be required under bond covenants.

Capital Reserves are often appropriate for utilities that own large power facilities. Also, some utilities set aside capital reserves associated with their participation in shared generation or transmission projects, such as those sponsored by NCPA. Beyond the requirement to fund its share of capital reserves for joint power facilities, no need has been noted for Lodi Electric Utility to establish capital reserves for additional power supply. There are, however, capital need contingencies associated with its on-site infrastructure.

The establishment of a Special Reserve to ensure that Lodi Electric Utility “remains competitive” during this period following the unsuccessful restructuring of the electric utility industry in California warrants some discussion. During early 2001 power price volatility exceeded what anyone could have predicted. Even though California power markets have now somewhat stabilized, albeit at higher levels than those of ten years ago, consideration should still be given to maintaining a special reserve to ensure Lodi Electric rate competitiveness at least for the next several years. However, just like ten years ago when electrical restructuring was in its infancy, it is not wise for anyone to

pretend to have knowledge of what future power costs might be. Still, the basis for setting the level of special reserves remains the same – risk management.

Establishment of a Debt Service Reserve could have value as an indication to rating agencies that Lodi Electric Utility is taking its recent downgrading by Fitch Ratings seriously and that among the steps it is taking to strengthen its cash position, it is formulating one to specifically address lender concerns.

COMPARISON WITH LOCAL PRACTICES

The attached limited survey, Appendix A, illustrates how each of five similar sized and larger California municipalities address fund reserves. It is note worthy that few have formal council policies that address the requirement for and level of cash reserves, but that all maintain operating reserves to some degree. For those utilities that have council directed policies with respect to operating reserves, the levels range from 30 to 45.6 days. (The 45.6-day period results from a policy requiring that operating reserves be set at 1/8th of annual expenses.) Operating reserves for electric as well as water utilities are typically found to be in the 30 to 45 day range, although 15-day and 60-day levels are sometimes encountered.

RECOMMENDATIONS

It is recommended that Lodi Electric Utility establish an Operating Cash Reserve Fund set at an amount equal to 45 days of its budgeted operating costs in FY07. Establishing operating reserves at this level is consistent with both local and nationwide electric utility practices. (Normally, the most recent fiscal year would serve as the base year, however, because last year was highly untypical the current budget year is proposed to be used as the base year.)

It is also recommended that a Capital Reserve Fund in the amount of \$500,000 be established. This is roughly the cost to replace and install a 66/12-kV substation transformer, which represents the largest single contingency on the Lodi Electric Utility system.

It is further recommended that the Rate Stabilization Fund be set in the amount that is reflective of a 20% purchased power increase over a six month period. For FY07, this amount would be \$4,200,000.

FISCAL IMPACT

Referring to Table 1 below, at the end of FY 2006, Lodi Electric Utility had approximately \$14 Million in various unrestricted accounts or funds. Approximately \$10.6 Million of that amount, however, was from bond proceeds which have restrictions placed on their use. The remaining approximate \$0.5 Million (Lodi Electric Utility operating reserves) represents less than three days of working capital on projected FY 2007 expenses of approximately \$66.5 Million. However, the nearly \$3.2 million that

Lodi Electric Utility has “on account” with NCPA can viewed as a contributor to the recommended operating reserve total, since the NCPA Operating Reserve can be used by Lodi Electric to offset NCPA power supply costs and may be returned to the utility upon request. For this reason it is appropriate to consider the NCPA General Operating Reserve toward meeting the recommended 45-day operating reserve requirement as developed in Table 2.

Table 1: Total Cash Available – End of FY2006

| Fund Designation | Current Balances* |
|----------------------------|--------------------------|
| Operating Reserve | \$ 520,000 |
| Capital Reserve | -0- |
| Rate Stabilization Reserve | -0- |
| Debt Service Reserve | -0- |
| Bond Proceeds Balance** | \$ 6,532,000 |
| NCPA Operating Reserve** | \$ 3,165,600 |
| Total Cash Available | \$10,217,600 |

* As provided by Lodi Electric Utility

** Restricted Use Funds. Total on hand at end of FY2006 was \$10,380,000 -- approximately \$6.532 available after prior capital project commitments.

As shown in Table 2 below, establishment of the three reserve funds at the recommended levels would require that an additional \$9,215,000 (\$12,900,000 - \$3,685,000) be set aside. It is not likely that funding at the recommended levels can be accomplished quickly. Lodi Electric Utility will need to consider rate increases or surcharges to convince its customers and rating agencies that it is taking appropriate steps to operate its utility on a stronger financial platform.

Table 2: Fund Reserve Comparison of Current and Recommended Levels Exclusive of Restricted Funds

| Fund Designation | Current Balances* | Recommended Minimum Balances | Shortfalls |
|--|--|-------------------------------------|-------------------|
| 45-Day Operating Reserve** NCPA General Operating | \$ 520,000 <u>\$3,165,000</u> <u>\$3,685,000</u> | \$ 8,200,000 | \$ 4,515,000 |
| Capital Reserve | -0- | \$ 500,000 | \$ 500,000 |
| Rate Stabilization Reserve | -0- | \$ 4,200,000 | \$ 4,200,000 |
| Total Cash on hand | \$3,685,000 | \$ 12,900,000 | \$9,215,000 |

* As of 6/30/06

###

APPENDIX A

CASH FUND RESERVE PRACTICES

OF

SELECTED CALIFORNIA MUNICIPAL UTILITIES

| | MUNI #1 | MUNI #2 | MUNI #3 | MUNI #4 | MUNI #5 |
|--|----------------------------------|----------------------------------|----------------------------------|-----------------------|----------------------------------|
| Utility Department | Electric + H₂O | Electric + H₂O | Electric + H₂O | Electric | Electric + H₂O |
| Formal Reserve Policy set by City Council | Yes | No | No | No | Yes |
| Co-mingled Funds? | No | No | No | No | No |
| Operating Reserve? | Yes, 30 days | Yes, undefined | Yes, 45 days | Yes, undefined | Yes, 45.6 days |
| Capital Reserve? | Yes | No | Yes | No | No |

NORTHERN CALIFORNIA POWER AGENCY
GENERAL OPERATING RESERVE CONTINGENT LIABILITIES

NOTE: Purpose of this document is to communicate: (1) estimated reasonably possible contingent liabilities, and (2) current member G.O.R. reserve funding levels. Because pervasive uncertainties associated with dysfunctional world-wide economic and market conditions may adversely affect members' near term ability to maintain funded reserves consistent with "good utility practice", a conservative aggregate probability of 100% has been assumed throughout.

| | POTENTIAL ESTIMATED FUNDING REQUIRED FROM THE GENERAL OPERATING RESERVE | | | | | | | | FUNDING SUMMARY | | |
|------------------------|---|-----------------------------|----------------------------------|------------------------------------|-----------------------------------|---------------------------------|----------------------------------|------------------------------|--------------------------------------|--|------------------------------------|
| | Market Power Volatility Cost Reserve (A) | Local Resource Adequacy (B) | Unfunded Geo Decommissioning (C) | Benefits Stabilization Reserve (D) | Western Base Resource Reserve (E) | Self-Insured Loss on Plants (F) | Hydro Proj#1 Dry Year Impact (G) | Agency Liability Reserve (H) | Total Estimated Funding Requirements | Less GEN OP RES Avail. Balance 3/31/2009 | Funding Excess (Deficit) 3/31/2009 |
| Alameda | \$ - | \$ - | \$ 4,192,394 | \$ 203,984 | \$ 300,906 | \$ 4,380,937 | \$ 2,521,687 | \$ 11,765 | \$ 11,611,672 | \$ 19,704,296 | \$ 8,092,624 |
| BART | - | - | - | 37,204 | 114,818 | - | - | 11,765 | 163,787 | 1,326,003 | 1,162,216 |
| Biggs | 104,588 | - | 56,370 | 10,792 | 77,643 | 58,906 | - | 11,765 | 320,064 | 213,810 | (106,254) |
| Gridley | 188,667 | - | 83,438 | 17,420 | 173,786 | 87,191 | 0 | 11,765 | 562,266.0529 | 361,386 | (200,880) |
| Healdsburg | 297,166 | - | 912,356 | 46,158 | 51,666 | 953,387 | 418,600 | 11,765 | 2,691,099 | 3,299,578 | 608,479 |
| Lodi | 744,516 | - | 2,552,809 | 223,030 | 136,537 | 2,667,617 | 2,614,989 | 11,765 | 8,951,263 | 5,263,921 | (3,687,342) |
| Lompoc | 644,183 | - | 914,095 | 61,824 | 71,158 | 955,204 | 579,988 | 11,765 | 3,238,216 | 2,999,148 | (239,068) |
| Palo Alto | 2,809,756 | - | - | 201,390 | 3,234,111 | 4,876,228 | 5,779,706 | 11,765 | 16,912,956 | 1,510,428 | (15,402,528) |
| PCWA | N/A | - | - | 136 | - | - | - | 11,765 | 11,901 | 15,500 | 3,599 |
| Plumas-Sierra | - | - | 174,078 | 36,712 | 461,963 | 359,547 | 426,165 | 11,765 | 1470229.759 | 566,915 | (903,315) |
| Port of Oakland | 349,432 | - | - | 15,480 | 158,937 | - | - | 11,765 | 535,614 | 136,829 | (398,785) |
| Redding | N/A | - | - | 12,494 | - | - | - | 11,765 | 24,259 | 451,456 | 427,197 |
| Roseville | N/A | - | 1,957,568 | 190,274 | - | 2,552,999 | 2,476,671 | 11,765 | 7,189,276 | 1,509,910 | (5,679,366) |
| Santa Clara | N/A | - | 11,023,394 | 498,334 | - | 11,519,147 | 7,640,530 | 11,765 | 30,693,169 | 19,498,659 | (11,194,510) |
| Truckee-Donner | N/A | - | - | 5,888 | - | - | - | 11,765 | 17652.70588 | 211,394 | 193,741 |
| Turlock Irr. Dist. | N/A | - | 1,572,039 | 58,404 | - | 1,642,738 | - | 11,765 | 3,284,946 | 1,481,908 | (1,803,038) |
| Ukiah | 571,056 | - | 1,394,236 | 67,542 | 90,873 | 1,456,939 | 514,424 | 11,765 | 4,106,835 | 7,065,309 | 2,958,474 |
| Total | \$ 5,709,364 | \$ - | \$ 24,832,777 | \$ 1,687,066 | \$ 4,872,397 | \$ 31,510,840 | \$ 22,972,760 | \$ 200,000 | \$ 91,785,204 | \$ 65,616,450 | \$ (26,168,753.54) |
| Total Possible | \$ 5,709,364 | \$ - | 24,832,777 | \$ 1,687,066 | \$ 4,872,397 | \$ 31,510,840 | \$ 22,972,760 | \$ 200,000 | \$ 91,785,204 | | |
| Est Probability | x | x | x | x | x | x | x | x | | | |
| | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | | | |
| Total | \$ 5,709,364 | \$ - | \$ 24,832,777 | \$ 1,687,066 | \$ 4,872,397 | \$ 31,510,840 | \$ 22,972,760 | \$ 200,000 | \$ 91,785,204 | | |

Footnotes:

- (A) Average Annual Electric Market prices in \$/MWh: (High = \$78.56) (Median = \$57.72).
 (B) TBD.
 (C) Current estimated unfunded decommissioning cost in 2007 escalated dollars to current date. Unfunded portion is current cost less: Funded portion with interest earned to-date. Decommissioning is currently planned to begin in or about 2030 and be completed by 2034.
 (D) Voluntary dedicated benefits stabilization reserve for future levelization of medical and retirement benefits costs, if and when required by actuary.
 (E) Estimated Green Book cost of replacement power necessary to support WAPA in 2010-2011 in the event of a critical dry year. Yellow Book update in process by WAPA.
 (F) Overall cost estimate of amount individual participants' might reasonably expect to fund for insurance deductibles, self-insured retention, or uninsured risk in the event of a property loss. NOT worst case scenario--rather, highest probable maximum loss for each participant because of diverse ownership percentages.
 (G) Estimated replacement power cost differential between average and dry year generation at high market forecast price.
 (H) Equal shares of \$200,000 liability insurance deductible in the event of such a general loss.



Electric Reserve Fund



**City Council Shirtsleeve
December 7, 2010**

Lodi Electric Utility



Background

- Operational and financial importance
- Cash reserves target is policy issue
- Navigant Consulting recommendation, prudent cash reserve level for EUD, 2006



Initial Target Adopted by Council

- **Operating Reserve** of 45 days of budgeted operating costs (\$8.2 million)
- **Capital Reserve** equal to largest local contingency (\$500,000)
- **Rate Stabilization** equal to 20% of projected market power costs (\$4.2 million)

*Adopted by Lodi City Council, Resolution 2007-13, January 17, 2007



Electric Reserve Policy

- Initial **Electric Reserve Fund Target** of \$12.9 million
- Goal to reach target by year-end FY2010
- Highlight cash “raising” opportunities in budget process
- One-time cash receipts dedicated to increasing reserves
- Consider all options to increase reserves
- Reassess reserve formula at least every 3 years



June 30, 2010 Reserve Status

| Location | Balances |
|--------------------------------|---------------------|
| Lodi | \$12,125,835 |
| NCPA General Operating Reserve | \$11,011,668 |
| Total Cash on Hand | \$23,137,503 |

Original Reserve Target reached by June 30, 2010



Updating Initial Target

- Contingent Liabilities with NCPA
- Fitch Ratings Criteria
 - “A” public utilities median 107 days cash
 - “AA” public utilities median 121 days cash
 - Ratings affect:
 - Competitive power contract pricing
 - Future costs on bonded debt

Lodi currently has approximately 60 days available cash locally.



NCPA Member Survey

| <u>Agency</u> | <u>Policy for Cash on Hand (days)</u> |
|-----------------------------|---------------------------------------|
| Alameda Municipal Power | 145 |
| Palo Alto Utilities | 55 |
| Redding Electric | 110 |
| Roseville Electric | 146 |
| Silicon Valley Power | 146 |
| Truckee Donner PUD | 61 |
| Turlock Irrigation District | 91 |
| <i>Average = 108</i> | |



Updating the Target

NCPA recommendations for General Operating Reserves:

| Contingent Liability | Required FY11 Funding |
|---|------------------------------|
| Hydro Plant & Western Dry Year | \$2,800,000 |
| Self-Insured Loss on Plants | \$2,700,000 |
| Unfunded Geo Decommissioning | \$2,600,000 |
| Market Volatility Cost Reserve | \$700,000 |
| Other (combined) | \$200,000 |
| Total Cash Target in GOR | \$9,000,000 |



New Reserve Recommendation

| Fund Designation | Basis | FY 2011 |
|--------------------------------|--|--------------|
| Operating Reserve | 90 days cash on hand | \$18,900,000 |
| Capital Reserve | Largest distribution system contingency | \$500,000 |
| NCPA General Operating Reserve | As Identified by NCPA plus allowance for unanticipated studies | \$9,300,000 |
| Total Target | | \$28,700,000 |



Questions/comments?